

**Informational  
Packet for  
Detroit Wayne-  
County Port  
Authority**

# Purpose of Legislation

## **DETROIT/WAYNE COUNTY PORT AUTHORITY**

### **LEGISLATIVE ENHANCEMENTS**

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Port Authorities were legislatively enabled by the State of Michigan through Public Act 639 of 1978 (PA 639). A combination of cities and/or counties can enable a port authority, which resulted in the City of Detroit and Wayne County incorporating the Detroit/Wayne County Port Authority (DWCPA) in 1979. Henry Ford II was the DWCPA's first Board Chairman and Director and sought to lead an agency that would foster development and growth at the Port of Detroit. Throughout its history, the DWCPA has been a conduit between our private port terminal operators, and their constituent units of government, on policy and funding issues that impact the Port of Detroit.

Port Authorities throughout the United States have become vital engines for economic development, regionalism, transportation growth and job creation. Port Authorities are generally viewed as hybrid governmental/ business organizations. The DWCPA possesses powers typical of government including the ability to own real and personal property, can facilitate condemnation and land bank activities, and structure creative financing through unlimited revenue bonding capacity. However, the DWCPA also possesses powers typical of private enterprise in that it is independently operated, separate from its constituent units, can raise money and apply for grants from both public and private sources, and most importantly, can retain and reinvest revenues.

Port Authorities are established as independent agencies and are responsible for producing revenue, typically via lease payments from terminal operators for land owned by the port authority. This public-private model of partnership that began at the port has grown in places like Ohio and Indiana, to include projects off the waterfront and in the community, creating new revenue streams for reinvestment back into port initiatives that span tourism, alternative energy, infrastructure, and brownfield redevelopment. Examples are available of Michigan losing job creating projects to Ohio because Ohio port authorities were better equipped to respond to the needs of private businesses.

Michigan's current law governing the powers and capabilities of port authorities has not been updated since it was first established in 1978. It's quite reflective of our economy during the late 1970s, but falls woefully short in addressing the available opportunities within development finance. To permit the DWCPA to have a more effective role in helping to retain and create jobs in Michigan, the Act should be updated by:

- Defining the Authorized Purposes of PA 639 by adding language specifically delineating the types of projects in which port authorities can be involved. For example, the list might include activities that "enhance, foster, aid, provide, or promote transportation, economic development, housing, recreation, education, governmental operations, culture, or research." This language is identical to Ohio and Iowa port authority laws.
- Expand the existing language which defines "port facilities" to include land, building or equipment that is owned, leased, otherwise controlled or financed for one or more authorized purposes within the jurisdiction of a port authority, again identical to Ohio and others state port authorities.



## **DETROIT/WAYNE COUNTY PORT AUTHORITY**

### **ANALYSIS OF PUBLIC ACT 639 OF 1978 (PORT AUTHORITY ACT) AND PROPOSED ENHANCEMENTS**

#### **Detroit/Wayne County Port Authority Background**

Public Act 639 of 1978 is a State of Michigan law that facilitated the creation of the Detroit/Wayne County Port Authority (DWCPA). The City of Detroit and Wayne County incorporated the DWCPA shortly thereafter, with Henry Ford II serving as the first Board Chairman and Director.

The mission of the DWCPA, as a transit and transportation agency, is to foster commerce and recreation by facilitating growth at the Port of Detroit and throughout Southeast Michigan. The DWCPA accomplishes this by being the main conduit between the private sector terminal operators and government. As a special-purpose authority, the DWCPA has the ability to:

1. Own and lease real and personal property
2. Enter into contracts separate from its constituent units of government
3. Apply for federal and state grants
4. Condemn property other than operating port facilities
5. Issue tax-exempt or taxable bonds to finance projects

#### **Funding of Port Authority Activities and Operations**

The DWCPA, by virtue of Public Act 639 of 1978, receives operating subsidy from the State of Michigan, Wayne County and City of Detroit. However, new subsidies, and potentially off-setting revenue sources could include:

- Financial contributions from political subdivisions – the incentive for the subdivisions to fund DWCPA economic development activities is greatest when they can realize potential additional project revenues from increased economic development activity
- Grants and loans from federal, state or local sources.
- Operation of air, maritime, rail or other transportation related facilities.

- Participation in financing transactions through the issuance of its bonds – the DWCPA may earn project-related fees in consideration for the economic value it adds for structuring and arranging bond financing, and providing flexible, creative and competitive access to the U.S. capital markets through private placements, direct purchase bonds and underwritten transactions, all of which are non-recourse back to the DWCPA.
- Fees for standard Port financing projects include:
  - Application fee
  - Fees for all port professional service providers including bond counsel, general counsel, consultants and financial advisors
  - Closing fees; and
  - Annual administrative fees

## Ohio Port Authorities

Port Authorities all over the country use their financing capabilities, which generate fees for participation, to cover their costs for operations and to support their economic development activities. Closer to home, the Cleveland-Cuyahoga County Port Authority and Toledo-Lucas County Port Authority have financed over \$2 billion worth of capital improvements over the past two decades. The fees generated have leveraged improvements throughout their industrial port footprint, but have also allowed them to become self-sufficient from their governing units.

Originally passed by the General Assembly in 1955, the Ohio Revised Code, Chapter 4582 enables the creation of port authorities. It was amended in 1970 to add airport facilities and again in 1982 to add economic development capabilities that work cooperatively with other governmental units.

Ohio's authorized purposes include:

"Activities that enhance, foster, aid, provide, or promote transportation, economic development, housing, recreation, education, governmental operations, culture, or research within the jurisdiction of the port authority."

"Activities authorized under Sections 13 and 16 of Article VIII, Ohio Constitution (permitting aid to private enterprises to promote economic development and housing in Ohio).

Ohio's ports can finance port facilities, which are described as:

"real or personal property, or any combination thereof, owned, leased, or otherwise controlled or financed by a port authority and related to, useful for, or in furtherance of, one or more authorized purposes."

A recently published national survey by the Council of Development Finance Agencies (CDFA) provided a 50-state summary of project snapshots for important tax-exempt, economic development bond financing transactions. The summaries provided some fairly compelling "anecdotal evidence" of the strong case for Port Authority financing strategies and solutions. The representative transactions showed:

**Michigan EDC's:** \$22,755,000 in investment producing 210 Jobs

**Ohio Port Authorities:** \$127,675,000 in investment producing 4,389 Jobs (this included the ports of Cleveland, Toledo, and Columbus)

The capabilities and financing activities of Ohio port authorities have also generated increased economic activity for their Economic Development Corporation (EDC) partners, by improving the climate for investment by the private sector. Projects are done in close

partnership with the City of Cleveland and Cuyahoga County, and the local EDC's and CIC's, as they offer a menu of incentives and tax-credit programs unavailable to the port authority.

### Differences between Cleveland and Detroit Port Authorities

As mentioned earlier, the Detroit/Wayne County Port Authority (DWCPA) is enabled under Public Act 639 of 1978. The problem that the DWCPA has functioning optimally under this law, is due to the restrictive language governing its ability to issue bonds that finance projects. The law states that the DWCPA can finance "port facilities," like the Ohio Revised Code. However, the DWCPA's law defines "port facilities" to include only:

- seawall jetties
- piers
- wharves
- docks
- boat landings
- marinas
- warehouses
- storehouses
- elevators
- grain bins
- cold storage
- oil tanks
- ferries
- canals
- locks
- bridges
- tunnels
- seaways
- conveyors
- icing plants
- bunkers

The DWCPA believes in maintaining these definitions, as these types of projects constituted our founding core principles, however just as Ohio and many other port authorities have evolved over the past 34 years to meet the needs of today's economy, the DWCPA believes it's time to amend and enhance the law. A closer look at the differences between Cleveland's Port Authority and Detroit's reveals other differences:

	Detroit	Cleveland
• Acquire real and personal property	✓	✓
• Own, lease, sell and construct improvements to real property	✓	✓
• Issue revenue bonds for port authority facilities	limited	✓
• Issue voted general obligation bonds for port authority facilities and other improvements		✓
• Levy voted taxes for all purposes of the port authority		✓
• Receive federal and state grants, loans and other public funds	✓	✓
• Operate transportation, recreation, governmental or cultural facilities, and set rates and charges for use of port authority facilities	limited	✓
• Cooperate broadly with other governmental agencies and exercise powers delegated by such agencies		✓
• Accept assignments of TIF service payments and special assessments		✓
• Maintain confidentiality within statutory limits for private enterprise		✓
• Establish and operate foreign trade zones	✓	✓
• Appropriate property for public use, convey or lease property to (and accept or lease from and exchange with) other governmental units		✓
• Straighten, deepen, and improve channels, rivers, streams or other water courses	✓	✓
• Sales-tax exemption on construction materials purchased		✓

## Ten Project Examples from Ohio

To better understand the diversity of project portfolios in Ohio, below are ten examples of projects financed through Ohio Port Authorities due to the expanded definition of "port facilities" and set of "authorized purposes." These projects generated revenues for the respective Ohio port authority, which allowed for investment in port infrastructure and other waterfront improvements.

1. "Corporate Headquarters"  
Owens Corning – Toledo
  - \$110 million off-balance sheet financing
  - PA owns and leases to OC
  - Combined lease revenue bonds, State loan and grant, PA bonds
  - Saved 1,000 HQ jobs from leaving City of Toledo
2. "Medical Office Building"  
The Toledo Hospital – Perrysburg
  - 42,500 sq. ft. Medical Office Building part for-profit
  - \$9,230,000 for building plus \$1,060,000 for equipment
  - Government synthetic lease
  - PA owns building and leases to Toledo Hospital
  - Taxable variable rate 10 year terms
3. "Cultural"  
Toledo Museum of Art
  - General Museum improvements not "saleable" for capital campaign
  - \$15,000,000 tax-exempt variable rate, 20-year term
4. "Education"  
Heidelberg University
  - \$16,650,000 tax exempt
  - Swapped half into fixed rate
5. "Mixed-Use"  
Crocker Park – Westlake, Ohio near Cleveland
  - \$76,175,000 A- rated bonds, tax exempt/30 year term
  - 5.42% average interest rate
  - All public infrastructure = owned by City of Westlake
  - Financed with special assessments on retail only
  - No equity
  - Presented \$8 million check to developer at closing for PV of leased land
  - City would not consider tax abatement or a TIF



6. "Governmental Operations"

Parking Garage in downtown Toledo

- PA owns and leases to City
- City required to Annually Appropriate lease payments
- \$7,825,000 tax-exempt 20-year term at 5.2%
- 550 parking spaces downtown
- Did not have to use limited General Obligation capacity

7. "Research"

Dana Research Center

- Synthetic Lease; PA owns and leases to Dana
- \$34 million – 450 jobs
  - \$10M state bonds – 6.1%
  - \$ 7M PA bonds – 6.18%
  - \$ 3M Ohio loan – 2%
  - \$300,000 Grant
  - Plug = \$13.8M lease bonds at 10.5%

*This Toledo-Lucas County Port Authority term-sheet was shopped in Michigan and Indiana by Dana Corporation, however no synthetic lease options had been offered by the economic development agencies involved. Today, this project and the jobs are in Ohio. Dana also sold its headquarters and has relocated to the Research Center.*

8. "Recreation"

Cleveland Cavaliers Practice Facility, Independence, Ohio

- 50,000 sq. ft. (2 courts, weight room, Cavs HQ)
- \$20,700,000 Taxable 20 year term – 6.375%
- 3 port authorities provided 100% financing
  - Cleveland - \$8.9 million and owns facility – synthetic lease
  - Akron - \$6 million
  - Toledo - \$5.2 million

9. "Not-For-Profit"

YMCA

- Proceeds used in two counties
- Fill "gap" from a capital campaign which came in short
- \$1,600,000, tax-exempt, variable rate, 25 year term

10. "Special Project"

General Motors, Toledo

- 400,000 sq. ft. manufacturing facility to produce 6-speed transmissions
- \$500,000,000 project including equipment; GM did own financing
- PA owns building, leases to GM

### Differences between Bank Lending and the Bond Market

The DWCPA is interested in becoming a more active development finance partner by issuing its revenue bonds to finance capital projects throughout its jurisdiction. Currently, when businesses need access to capital more than ever, commercial lending has become incredibly challenged due to existing economic pressures.

Banks are not only capitally constrained by new equity standards, but they also are facing stress-test limitations on lending, all within an increasingly hostile regulatory environment. The small and middle-market business community has been deprived of the necessary capital to operate, grow and expand their businesses. Even the very largest and best corporate credits in the United States have seen cutbacks and restrictions on other bank terms, conditions, pricing and credit facilities. There also is the issue of credit requirements, which have resulted in higher equity, shorter terms and higher fees for all new loans. States without effective and competitive capital for businesses are losing companies and jobs.

Summarized below are some of the primary differences to traditional bank lending, and the bond markets, which the DWCPA seeks to become more active:

- Banks:**
- Provide short to medium term lending facilities (5-7 years)
  - Banks are cash flow lenders
  - Banks prefer to finance liquid assets & equipment
  - Banks will NOT own & lease real estate
  - Banks typically require 25-30% equity for new loans
- Bonds:**
- Market prefers to monetize contracts and leases for long-terms
  - Institutional investors often prefer port authorities due to lack of cap
  - Bonds can provide fixed-rate financing for real estate and capital assets
  - Bond investors currently have record amounts of capital resources
  - Bond investors include insurance companies, pension funds, institutional investors, and larger international financial institutions

### **Financial Incentives for Private Development Projects**

Participation of the DWCPA in the development and financing of a project may reduce project and financing costs without any significant loss of control by the private borrower. This "public-private" project financing model offers benefits to the private borrower such as, but not limited to:

- May not go against debt covenants or limitations of the private borrower
- Source of taxable or tax-exempt issuance
- Port can preserve debt and bonding capacity of political subdivisions or other not for profit organizations and entities such as healthcare institutions
- Maximum flexibility in financial structuring
  - Structured or stepped up bond amortization schedules
  - Interest only during construction
  - Long-term fixed bond pricing - No rent escalators
  - No out of pocket expenses (all costs capitalized)
- Port Authority can utilize any lease structure
  - Capital Lease
  - Operating Lease
  - Direct Purchase Lease
  - Sale Leaseback with Improvements
- Long-term site control to the private borrower (10, 15, 20+ years)
- Matching bond debt service payments to annual lease debt service

**What is unique about the Port Authority versus other Economic Development Corporation partners?**

Unlike EDCs, the DWCPA seeks to be a development finance partner with private companies and corporations, essentially taking an ownership interest in certain assets. Whereas EDCs typically issue industrial development and private activity bonds, which are limited by project definition and capped in dollar amount, port authorities are typically not constrained by the type of project they can finance, nor are they capped by dollar amount. Port authority financed deals are structured based on the cash flow a project can generate to service the debt. Port authority bonds are not a debt of the taxpayers, nor are they secured by any constituent governing unit.

Port Authorities can also accommodate unique and tailored requests within transactions. For instance, when Port Authorities finance a capital improvement, they:

- Can provide financing that includes prepaying their ground lease up front
- Can provide funding for a project even when payments do not amortize the full debt
- Can provide interest-only financing for the full term of a loan
- Can provide financing for unsecured or subordinated loans
- Can arrange larger-scale financings of 40M, 75M or 100M
- Can assume 100% responsibility for the project during construction
- Can incorporate a multi-option standby loan guarantee
- Can structure and arrange synthetic leases

In most other states, port authorities are given a very broad geographic and structural definition of projects in order to address the needed flexibility of the private sector to arrange financings, in conjunction with the myriad of additional incentive programs offered by the local EDC. More importantly, port authorities around the country provide and structure financing in ways that Economic Development Corporations cannot or will not pursue, in some cases due to complex tax and accounting structures, legal limitations, or limited resources. Therefore, port authorities have become important strategic partners in the overall development finance strategy for urban areas and regions, nationally.

**What will be done with the revenues generated, if the Port Authority is provided an expanded definition of project scope and authorized purpose?**

First and foremost, the Port Authority would be on the road toward self-sufficiency and independent of government subsidies for general operation. Second, it would provide an additional revenue stream that could be used to invest in waterfront and port infrastructure. In Michigan, there are not port-specific funding programs, unlike other states, that allow for port and/or harbor improvements. They could also be used to make strategic investments in recreational, environmental, homeland security or other community-based projects.

**Case Study: General Motors/ DWCPA**

A few years ago, the Detroit/Wayne County Port Authority issued revenue bonds for General Motors to develop a mixed-use retail and parking facility on the downtown Detroit riverfront. Entering into a 20-year ground lease with GM, the DWCPA was able to arrange \$6 million by monetizing the lease, essentially capturing the depreciation up front, and providing it as equity on the transaction. The DWCPA then structured and privately placed two bonds.

- \* Series A - 89% of transaction - secured lease revenue bond
- \* Series B - 11% of transaction - unsecured lease revenue bond

Both Series A and Series B bonds were interest only for the full five-year base lease.

The GM Synthetic Lease financing was completely non-recourse to the DWCPA and all of its constituent units of government. The true borrower, RHI was a newly formed LLC with no previous assets, balance sheet or income statements. The Federal tax code prohibited equity, guarantees, payments or promises from GM to achieve the off-balance sheet treatment. Therefore, the finance team involved protected the DWCPA during construction with insurance policies on all "courses of construction risks." The DWCPA shifted all cost overruns to the institutional investors and lessee with a lease amendment option.

# Economic Impact Studies

## Port Detroit – 2011 Return on Investment

The Port of Detroit is a valuable economic asset and development tool that provides an enormous return on investment for Michigan, Wayne County, and the City of Detroit.

In 2011 the Detroit Wayne County Port Authority was provided with \$954,450 in funding. As a result, the Port was able to bring more than \$1.5 million in grant funding back to Michigan, a return of 60% in a single year.

In addition, marine and cargo operations at the Port of Detroit support more than 5,600 jobs, which in turn contribute \$558.4 million in income and consumption to the local economy and more than \$100 million annually in state and local taxes.

### 2012 PORT FUNDING:

State of Michigan	\$468,200
County of Wayne	\$236,250 (Not Yet Funded)
City of Detroit	\$229,000 (Not Yet Funded)
Total Funding	\$933,450

### 2011 NON-DISCRETIONARY GRANT REVENUE (Non-Operational Revenue):

Federal Highway Grant	\$69,397
DHS – Port Security Grants	\$1,000,152
EPA Brownfield Investigation Grant	\$222,451
MDEQ Brownfield Redevelopment Grant	\$8,742
MDEQ Clean Diesel Grant	\$60,575
NOAA Grant	\$133,443
Creative Arts Center Grant	\$27,691
Ferry Crossing Study Grant	\$5,000
Grant Revenue Total	\$1,527,451

### 2011 RETURN ON INVESTMENT:

Money Spent	\$954,450
Money Returned	\$1,527,451
Return on Investment	60%

### ANNUAL ECONOMIC IMPACT:

Total Michigan Jobs Supported	15,459
Direct Jobs Supported in Detroit	5,622
Value Added to Detroit Regional Economy	\$558,400,000
State Taxes Generated	\$101,400,000

## Chapter II

# PORT OF DETROIT ECONOMIC IMPACTS

Cargo and vessel activity at the Port of Detroit generated the following economic impacts in 2010.

**Exhibit II-1 Economic Impacts of the Port of Detroit**

<b>Jobs</b>	
Direct	5,622
Induced	4,256
Indirect	5,582
<b>Total</b>	<b>15,459</b>
<b>Personal Income</b>	
Direct (1,000)	\$255,295
Re-spending / Local consumption (1,000)	\$558,433
Indirect (1,000)	\$232,200
<b>Total (1,000)</b>	<b>\$1,045,928</b>
<b>Business Revenue (1,000)</b>	<b>\$1,590,857</b>
<b>Local Purchases (1,000)</b>	<b>\$433,230</b>
<b>State Taxes (1,000)</b>	<b>\$101,455</b>
<b>Federal Taxes (1,000)</b>	<b>\$188,267</b>
<b>Total Taxes (1,000)</b>	<b>\$289,722</b>

Note: Totals may not add due to rounding

## 1. JOB IMPACTS

15,459 jobs in Michigan were supported by the cargo moving via the marine terminals located at the Port of Detroit.

- Of the 15,459 jobs, 5,622 jobs were directly generated by the marine cargo and vessel activity at the marine terminals at the Port of Detroit.
- As a result of the local and regional purchases by those 5,622 individuals holding the direct jobs, an additional 4,256 induced jobs were supported in the regional economy.
- 5,582 indirect jobs were supported by \$433.2 million of regional purchases by businesses supplying services at the marine terminals at the Port of Detroit.

## 2. REVENUE IMPACTS

In 2010, the direct business revenue received by the firms directly dependent upon the cargo handled at the marine terminals located in the Port of Detroit was \$1.6 billion. These firms provide maritime services and inland transportation services for the cargo handled at the marine terminals and the vessels calling at the terminals.



### **3. PERSONAL INCOME AND LOCAL CONSUMPTION IMPACTS**

The 5,622 individuals directly employed as a result of the cargo handled at the ports and marine terminals at the Port of Detroit received \$255.3 million in wages and salaries. These individuals, in turn, used these earnings to purchase goods and services, to pay taxes, and for savings.

The purchase of goods and services from regional sources creates a re-spending effect known as the personal-earnings multiplier effect. Using the local personal-earnings multipliers, an additional \$558.4 million in income and consumption were created by the Port of Detroit. In developing the personal-income multiplier impacts, Martin Associates relied on the national government agencies to provide the income multipliers.

In addition, the 5,582 indirectly employed workers received indirect wages and salaries totaling \$232.2 million. Combining the direct, induced and indirect income impacts, the cargo handled at the Port of Detroit generated \$1 billion in wages and salaries, and local consumption expenditures in the Great Lakes regional economy.

### **4. FEDERAL, STATE AND LOCAL TAX IMPACTS**

A total of \$289.7 million in state and federal taxes were generated by cargo and vessel activity at the Port of Detroit, with \$101.4 million generated at the state level and \$188.3 million generated at the federal level.

# EDC Partnerships

## Ports and Economic Development: A Complementary Asset

There is a strong case to be made in support of the Port of Detroit's bonding capabilities through comparison with other major port cities around the United States.

In today's increasingly competitive global marketplace, cities must seek every advantage they can get when attracting new business and investment. Therefore it makes sense that a major metropolitan area with only a few economic development agencies is the exception rather than the rule. It is a fact that most major port cities have several EDC's working in conjunction *with* their ports to maximize economic investment in their region.

Embracing the idea of multiple developmental authorities makes sense because *economic development is not a zero sum game*. The development successes of one regional EDC do not come at the expense of others in that region. As long as new business ends up in the city, everyone benefits.

This is especially true when the mission and constituencies of authorities are diverse and complementary. For example, a port has the ability to offer specialized and unique development opportunities that a county EDC cannot and vice versa. The ideal situation is to have both in place to ensure no opportunity is missed. The fact that most major cities have multiple EDC's coexisting and creating growth serves to prove that point.

Making the most of every opportunity is essential if Detroit intends to maintain and expand upon its status as a truly world class city. Allowing the Port of Detroit and its Foreign Trade Zone to fully utilize their development potential represents a significant step toward achieving that goal.

The following is a list of selected major port cities around the United States that have recognized the advantages of utilizing their port(s) as a partner in economic development Detroit can benefit from having multiple economic development agencies such as the cities listed below.

City	State	Economic Development Corporation(s)	Port(s)
Los Angeles	CA	Compton Economic development Glendale Economic Dev Long Beach Economic Development Los Angeles Eco Dev Santa Monica Economic Dev	Port of Long Beach Port of Los Angeles
San Diego	CA	Chula Vista Economic Dev City of San Diego Economic Dev Downtown San Diego Partnership East County Eco Dev Council San Diego North Eco Dev Council San Diego Regional Economic Development Corp	Port of San Diego
SF/Oakland	CA	Bay Area Marketing Partnership Berkeley Economic Development East Bay Economic Development Alliance Oakland Economic Development San Francisco Center for Economic Development	Port of San Francisco Port of Oakland
Miami	FL	Beacon Council (Miami-Dade) City of Miami Economic Development South Miami-Dade Economic Development Council	Port Miami
Chicago	IL	Chicago Southland Economic Development Corporation World Business Chicago	Illinois International Port District
Boston	MA	Cambridge Economic Dev Metropolitan Area Planning Council Southeastern Reg. Plan. & Eco Dev District	Port of Boston/MassPort
Duluth	MN	Duluth Economic Development Authority	The Duluth Seaway Port Authority
Cleveland	OH	Greater Cleveland Partnership Northeast Ohio Trade & Eco Consortium	Port of Cleveland
Toledo	OH	Toledo Department of Eco Dev Toledo Regional Growth Partnership	Toledo-Lucas Co Port Authority
Seattle	WA	enterpriseSeattle Seattle Office of Economic Development	Port of Seattle
Milwaukee	WI	Milwaukee Economic Development Corp	Port of Milwaukee

# Concession FAQ

## **PORT OF DETROIT: PUBLIC-PRIVATE PARTNERSHIP**

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The DWCPA owns the 35-acre Detroit Marine Terminal (DMT) site. Our mission is to preserve, grow and sustain the Port of Detroit. This coincides with the City of Detroit's last Master Plan produced in 2004:

*2004 City of Detroit Master Plan*

- Cluster 5, Goal 6: "Continue development of, and increase efficiency of, the Port of Detroit."
- Future Land Use is "Distribution/Port Industrial" along Fort Street (except for frontage which is commercial), down Grand Blvd., along the river, to former Revere, along Jefferson back up Clark St.

In 2005, the DWCPA requested the ability to grant a concession for the purpose of "assisting the Authority with the operation of the facility (former DMT)." The Ambassador Port Corporation (APC) agreed to invest \$2 million into the facility to pay off the outstanding debt and save this property from bankruptcy. APC has a Facility Operation Agreement with Nicholson Terminal & Dock (NTD)

In return, the APC, on behalf of the DWCPA, agrees to perform "facility work," with the Terminal Operator (NTD) which includes:

- Presenting a yearly Master Plan and Operating Budget to the DWCPA Board for approval
- Assistance in negotiating contracts at the site
- Provide recommend pricing of products and services
- Development of operational policies
- Management of all processes (modifying, constructing, rehabbing, subleasing, etc) related to the facility
- Working with the Terminal Operator to execute contracts related to the operations
- Working with the Terminal Operator to maintain permits, licenses, approvals

The DWCPA agreed to oversight of the "facility work," which includes:

- Not withholding its consent to any budget, master plan, price schedule, or operating procedure as long as its consistent with applicable law and concession purpose, won't impose financial obligations on the DWCPA, and consistent with the facility operation standard
- Responding to requests for approval
- Keeping the APC informed of any potential defaults or breaches of the agreement
- Not pledging an interest or mortgage in the facility
- Alerting APC of any public notices of violation

The DWCPA obtains 2.5% of all gross receipts quarterly once all loans, interest, principle and payment to Terminal Operator have been made.

Future expansion will be necessary, but expansion that is concurrent and compatible with the City of Detroit 2004 Master Plan. APC can request that other port facilities owned or controlled by the DWCPA in Wayne County be taken into consideration as expansion projects by our Board of Directors. APC shall comply and abide by all federal, state, county, municipal and other governmental statutes, ordinances, laws and regulations affecting the premises and facility.

## **THE CONCESSION AGREEMENT FAQ**

### **What is the Concession Agreement?**

The Concession Agreement is a three party contract between the Detroit Wayne County Port Authority (DWCPA), The Ambassador Port Company (APC), and Nicholson Terminal & Dock Co. The contract grants APC the right manage the freight handling and logistical operations, through a sub-concessionaire (Nicholson), at the Port of Detroit, also known as "The Facility".

### **What's the difference between the Port of Detroit and the Detroit Wayne County Port Authority?**

The DWCPA is a public agency responsible for developing and promoting Detroit's waterfront assets. The Port of Detroit, as defined by the agreement, consists of two cargo terminal properties in Ecorse and Southwest Detroit respectively (See Map). The Concession Agreement is limited to operations at the Port of Detroit facilities.

### **Why does this agreement exist?**

In 2004 the Port of Detroit was closed and inactive. It generated no revenue, had no employees, and was being foreclosed on by the city because of a \$2 million debt default by the owners of Detroit Marine Terminals. Had that happened, Detroit and Michigan would have lost its only world recognized international port.

Instead, DWCPA entered into an agreement with APC where APC would loan DWCPA the money to purchase the port property from the City. In return, APC was granted the right to manage operations at the facility (through the sub-concessionaire, Nicholson Terminal & Dock Co.) and to the resulting revenue generated. DWCPA is entitled to a percentage of that annual revenue, which was intended to cover oversight expenses and to pay off the original loan.

### **Does the Concession Agreement represent a partnership between DWCPA and APC?**

No. The agreement explicitly states that no partnership or joint venture exists. Rather, the agreement is contract that allows APC to perform a service (managing freight operations at the Port of Detroit Facility) in return for a fee (the revenue derived from those freight handling operations).

### **Does the DWCPA have any oversight power within the agreement?**

Yes, DWCPA maintains a substantial amount of oversight authority. The agreement requires APC to annually submit, for review and approval by the DWCPA, a Master Plan detailing planned development, construction, expansion, contraction, operations, maintenance, and improvements to the Port Facility. In addition to the Master Plan, APC must get DWCPA's approval of the Budget, Pricing Schedule, and Operating Procedures for the port. In other words, the DWCPA has oversight authority over all aspects of the operation and development of the port facility.

### **What about expansion of the Port?**

At the time of the agreement, both parties expected that the Port Facility would expand in the future. While the exact nature of these expansions has yet to be detailed in a Master Plan, the agreement highlights several "expansion properties" consisting of roughly 65 acres of property neighboring the Southwest Detroit terminal. Ideas for these expansion properties include the construction of a new intermodal terminal, rail yard, grain storage, and a next-generation ethanol plant. If the 65 acres were eventually acquired by the DWCPA, and subsequently included into the Port of Detroit Facility, APC would have the right to extend their management of freight operations to those properties as well.

### **What about expansion beyond the Port of Detroit?**

While there are no plans for expansion beyond the Port Facility and its immediate neighbors, the agreement does include a provision for the inclusion of other freight handling facilities into the Port of Detroit.

Such inclusion is limited to properties under the control, management, or authority of DWCPA and only those of a comparable freight transportation nature (freight handling / storage / intermodal rail loading / truck loading). If a property met those standards, and was approved by the DWCPA for inclusion within the Master Plan for expansion, then APC would have the option to extend their management of freight handling operations to that property as well.

### **How does this agreement effect DWCPA's involvement in other non-transportation activities?**

It doesn't. The agreement is limited purely to the management of freight operations within the Port of Detroit facility. Any other DWCPA activities outside the Port of Detroit are completely independent of APC.

### **Has the agreement benefited the DWCPA?**

While the agreement did allow the DWCPA to save the Port of Detroit, the terms of the contract, in addition to burdensome state regulations, have made it difficult for the DWCPA to realize any ongoing financial benefit.

The contract assumed that the Port of Detroit would grow, increasing revenues for both APC and DWCPA. Unfortunately Michigan was the only state to impose strict standards on ballast water discharge, effectively eliminating the port's ability to export cargo. Being forced to work at what is essentially half capacity has severely limited the economic potential of the port.

Perhaps things will change in the future as economic activity picks up in Detroit and/or overly restrictive state regulations are revised, but for the time being the Port of Detroit remains a troublesome asset of DWCPA.